Thrift Savings Plan
BULLETIN for Agency TSP Representatives

Subject: Elective Deferral Limits for 2002 Through 2006

Date: December 3, 2001

For 2002, the annual limit on elective deferrals will be $11,000. This limit will increase each year by $1,000 until 2006, when it reaches $15,000. After 2006, the increase will be indexed to the annual cost-of-living adjustment referred to in the Tax Code. For purposes of the Thrift Savings Plan (TSP), the term "elective deferrals" refers to employee contributions, which are made on a tax-deferred basis.

Notification to FERS* employees. Personnel offices should notify each FERS employee who may be affected by the elective deferral limit. (In 2002, FERS employees whose annual basic pay exceeds $91,666 may be affected by this limit.) Agencies should also provide potentially affected FERS employees with the Fact Sheet "Annual Limit on Elective Deferrals." The Federal Retirement Thrift Investment Board has revised this Fact Sheet and a copy of the revision, dated October 2001, is attached to this bulletin. The Fact Sheet is also available from the TSP Web site at www.tsp.gov.

Agency system requirements. The TSP system will not process a payment record that will cause an employee to exceed the elective deferral limit. Agency payroll systems must reduce an individual's employee contribution during the pay period in which the annual limit is reached to an amount that will meet but not exceed the annual limit. (If applicable, the agency matching contribution must be reduced as well.) Also, once the annual

(continued on next page)

* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Federal retirement systems.

Inquiries: Questions concerning this bulletin should be directed to the Federal Retirement Thrift Investment Board at **(202) 942-1460**.

Chapter: This bulletin may be filed in Chapter 3, Eligibility and/or Chapter 6, Establishing and Maintaining Accounts.

Supersedes: This bulletin supersedes TSP Bulletins 00-24, 2001 Limit on Employee Contributions to the Thrift Savings Plan, dated December 8, 2000; and 95-4, 1995 Limit on Employee Contributions to the Thrift Savings Plan (which includes the superseded Fact Sheet), dated January 12, 1995.

limit is reached, the agency payroll system must not allow any additional employee contributions (or attributable agency matching contributions) during the remainder of the year. Agency automatic (1%) contributions, however, must continue to be made. For the first pay date in the next calendar year, the payroll system must automatically resume the employee (and attributable agency matching) contributions based on the employee's most recent TSP contribution election.

PAMELA-JEANNE MORAN
Deputy Director
Office of External Affairs

Attachment

THRIFT SAVINGS PLAN FACT SHEET

Annual Limit on Elective Deferrals

Part I of this Fact Sheet describes the Internal Revenue Service (IRS) annual limit on elective deferrals and explains how this limit may affect Thrift Savings Plan (TSP) contributions made to the accounts of certain FERS employees. Part II explains how this limit may affect employees covered by either FERS or CSRS* who are contributing to the TSP and another tax-deferred retirement plan.

Part I: Limits on Contributions to Your TSP Account

What are elective deferrals?

Elective deferrals are tax-deferred amounts that you choose to contribute to a plan instead of receiving those amounts as pay. Because such contributions are tax-deferred, they are not included in your taxable gross income for the year in which they are contributed. Your employer makes the contributions on your behalf under a qualified cash or deferred arrangement (as defined in section 401(k) of the Internal Revenue Code (Tax Code)).

For TSP participants, Employee Contributions are considered to be elective deferrals. Elective deferrals do not include Agency Automatic (1%) or Agency Matching Contributions because these contributions are not considered part of your pay.

What is the annual limit on elective deferrals?

Section 402 of the Tax Code limits the amount of income that you may elect to defer under all cash or deferred arrangements during a tax year. (For most employees a tax year is January 1 through December 31.) As set forth in the Economic Growth and Tax Relief Reconciliation Act of 2001, the elective deferral limit for 2002 will be $11,000. Thereafter, the limit will increase each year by $1,000, until it reaches $15,000 in 2006.

What happens to my Employee Contributions when the annual limit is reached?

When the annual limit is reached, your Employee Contributions must be suspended for the remainder of the year. The TSP system will not allow any Employee Contribution to be processed that will cause the total amount of Employee Contributions for the year to exceed the annual limit. Your agency payroll office must ensure that your Employee Contributions automatically resume during the first pay period paid in the following year.

What happens to my Agency Matching Contributions when Employee Contributions are suspended because the annual limit has been reached?

Your Agency Matching Contributions are also suspended when the annual limit on elective deferrals has been reached. Agency Matching Contributions are based upon the amount of Employee Contributions that you make each pay period. Thus, if there are no Employee Contributions in a pay period, there can be no Agency Matching Contributions.

* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Federal retirement systems. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Federal retirement systems.

What happens to my Agency Automatic (1%) Contributions when my Employee and Agency Matching Contributions are suspended?

Your agency must continue to submit Agency Automatic (1%) Contributions even though your Employee and Agency Matching Contributions are suspended. As a FERS employee, you are entitled to receive Agency Automatic (1%) Contributions whether or not you make Employee Contributions.

What if, due to agency error, I make up Employee Contributions this year that should have been made in an earlier year?

Makeup Employee Contributions are subject to the IRS elective deferral limit for the year in which the contributions should have been made. Consequently, if your makeup contributions should have been made in an earlier year, they do not count against the current year's elective deferral limit. For purposes of determining the amount of makeup contributions for an earlier year, that earlier year's elective deferral limit must be applied.

Does it make a difference if I reach the annual limit before the end of the year?

Yes. If you are a high-salaried FERS employee, you should keep the annual contribution limit in mind when deciding how much you will contribute to your TSP account each pay period. If you reach the annual maximum too quickly, you could lose the opportunity to receive some Agency Matching Contributions because you only receive Agency Matching Contributions on the first 5 percent of your basic pay that you contribute **each pay period**. If you reach the annual limit before the end of the year, your contributions (and consequently your Agency Matching Contributions) will stop. (The amount you could lose in Agency Matching Contributions would, in all likelihood, be far greater than the value of the added earnings you might receive by making Employee Contributions sooner.) The example on Page 3 illustrates how an employee can lose matching money if the limit is reached before the end of the year.

How can I make the maximum Employee Contribution and still receive the maximum Agency Matching Contribution each year?

To receive the maximum Agency Matching Contribution, you must contribute at least 5 percent of the basic pay you earn **each pay period** during the year. (The first 5 percent of your basic pay each pay period is matched — dollar for dollar on the first 3 percent and 50 cents on the dollar for the next 2 percent.)

To determine a dollar amount you can contribute each pay period so that your contributions are spaced out over all the (remaining) pay periods in the year, you may use the worksheet attached to this Fact Sheet or the calculator on the TSP Web site (www.tsp.gov).

Example

For 2002, the annual limit on elective deferrals is $11,000. Employee A contributes 12% each biweekly pay period and reaches the annual limit in 23 pay periods. Consequently, employee A receives no Agency Matching Contributions for the remaining 3 pay periods in the year. Employee B contributes a whole dollar amount each biweekly pay period and reaches the annual limit in 26 pay periods. Employee B thus receives Agency Matching Contributions for the entire year.

For purposes of this illustration, each employee's biweekly gross basic pay is $4,000. (This is an annual salary of $104,340.[1])

	Employee A	**Employee B**
Basic pay per pay period	$ 4,000	$ 4,000
Maximum Employee Contributions per pay period @ 12%	$ 480	$ 480
Maximum Agency Matching Contributions per pay period @ 4%	$ 160	$ 160
TSP Contribution Election	12%	$ 424
Number of pay periods until $11,000 elective deferral limit is reached	23[2]	26[3]
Total Employee Contributions made in 2002	$ 11,000	$ 11,000
Total Agency Matching Contributions received in 2002	$ 3,680	$ 4,160

[1] To determine your pay each biweekly pay period, divide your annual salary by 2,087 (the number of hours in a year for Federal pay purposes), round to two decimal places, and multiply the result by 80 (the number of hours in a biweekly pay period).

[2] Employee contributions for pay period 23 will be reduced by $40 by the agency, but the employee still receives the full 4% agency matching contributions for that pay period.

[3] Employee contributions for pay period 26 will be reduced by $24 by the agency, but the employee still receives the full 4% agency matching contributions for that pay period.

Worksheet to Maximize the Amount of Agency Matching Contributions

Your estimate. Enter the IRS limit on Employee Contributions for the year in which your new election will be effective.

Using your most recent earnings and leave statement, find the total amount of your year-to-date TSP Employee Contributions. Add to that the amount of Employee Contributions that will be deducted each pay period until the pay date that your new TSP election will become effective. (Take anticipated salary increases in the year into account.)

Contribution elections made before the last month of an open season (January or July) do not become effective until the pay date for the first full pay period of that month. For example, if you change the amount of your TSP contribution on May 15, your election does not become effective until the pay date for the first full pay period in July (generally, a date in late July or early August). You will need to keep these effective dates in mind when estimating the amount that will be contributed.

Example. A high-salaried employee wants to maximize the amount of Agency Matching Contributions for 2002. The employee's salary was $120,000 during the first two pay dates in 2002 and $123,000 during the rest of the year. The employee's election for the first two pay dates in 2002 was 11 percent. A new election will become effective the first full pay period in January 2002 (e.g., 1/13/02).

	Example	**Your Estimate**
1. Enter the IRS elective deferral limit for the year (e.g., 2002):	$ 11,000.00	$ ________
2. Enter all Employee Contributions made during the year prior to the effective date of your new election (e.g., two pay dates):	$ 1,011.98	$ ________
3. Subtract Line 2 from Line 1:	$ 9,988.02	$ ________
4. Enter the number of salary payments remaining in the year for which your new election will be effective:	24	________
5. Divide Line 3 by Line 4:	$ 416.17	$ ________
6. Round up the result in Line 5 to the next dollar to determine the whole dollar amount you should contribute each pay period for the rest of the year (which you will enter on your Form TSP-1):	$ 417.00*	$ ________

* In this example, the last contribution of the year will be reduced to $397.02 by the employee's agency to avoid exceeding the elective deferral limit for the year.

Part II: Participating in the TSP and Another Tax-Deferred Retirement Plan

The following questions relate to excess deferrals made to both the TSP and another qualified employer plan as described under sections 401(k), 403(b), 408(k), or 501(c)(18) of the Internal Revenue Code. Certain Federal employees can participate in such plans in addition to the TSP, and the elective deferral limit applies to the combined total of all contributions for the year. Because tax rules are complex, you may wish to consult a tax advisor if you have excess deferrals.

What is an excess deferral?

An excess deferral is the amount that exceeds the relevant annual limit on elective deferrals.

What if I am contributing to more than one plan and my combined contributions exceed the annual limit?

You may request a refund of any excess deferrals from one or more of the plans in which you participate. Each plan then has the option of returning these excess deferrals plus associated earnings by April 15 of the year following the year in which the deferrals were made.

If you notify the TSP in a timely manner that you wish to have excess deferrals refunded from the TSP, the TSP will return the excess deferrals and associated earnings to you.

How does this process work?

Ask the TSP Service Office, National Finance Center, P.O. Box 61500, New Orleans, LA 70161-1500 (telephone (504) 255-6000) for the form to request a refund of excess deferrals and associated earnings. You must return the completed form to the TSP by **February 20 of the year after the excess deferrals were made**. The TSP will then process the refund and pay you the amount before April 15. Forms received after February 20 will not be processed.

What are the tax consequences if I contribute more than the annual limit in any tax year?

Excess deferrals are treated as income in the year in which you made the contributions, whether or not they are refunded to you. The total amount of deferred income is reported by each employer in Box 13 on your IRS Form W-2. If you have made excess deferrals, you must report the total amount of the excess on your individual income tax return as taxable wages for the year in which you made the excess deferrals.

If you elect to receive excess deferrals as a refund from the TSP, you will receive IRS Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., indicating the amount of the excess that was refunded to you. This distribution will also be reported to the IRS. If you have already filed your individual tax return for the year in which the excess was contributed and this amount was not included as taxable wages, you will need to file an amended tax return.

How are the earnings on excess deferrals treated for tax purposes?

Earnings distributed with excess deferrals are considered taxable income **in the year in which they are distributed** (unlike the excess deferrals themselves, which are considered taxable income **in the year in which they are contributed**). You will receive a separate IRS Form 1099-R indicating the amount of the earnings. You must report this amount as income in the year in which the distribution is made. This distribution will also be reported to the IRS.

What happens to the Agency Matching Contributions that were associated with excess deferrals returned to me?

Your agency will be notified that you have requested to have your excess deferrals and associated earnings returned to you. Your agency is then required to remove the Agency Matching Contributions associated with these excess deferrals. If your agency fails to remove the Agency Matching Contributions within one year of the date the contributions were made to your account, these contributions will not be returned to your agency; instead they will be removed from your account and used to offset TSP administrative expenses. In either case, the earnings associated with these Agency Matching Contributions will be removed from your account and used to offset TSP administrative expenses.

Is a distribution of excess deferrals considered an early withdrawal and thus subject to the IRS tax penalty?

If the distribution is made by April 15 of the tax year following the year in which the excess deferral was made, it will not be considered an early withdrawal.

What happens if the distribution is not made by April 15 of the following tax year?

You cannot request to have the excess amount refunded later. Instead, you will be taxed twice on this amount; once in the year the excess deferral is made and then again when you separate and withdraw your account. (If the withdrawal is premature, the IRS early withdrawal penalty may also apply.) Earnings on the excess deferrals are only taxed once, when you withdraw the account.

Please note: As stated above, if the TSP does not receive your request by February 20, it will not be processed; accordingly, you will not receive a distribution from the TSP of your excess deferrals.